
Personal Services and Purchased Services Contracting Limited Scope Performance Audit

**Final Report
January 13, 2003**



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January 13, 2003

Mr. Jim Hedrick
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Subject: Project Deliverables – KPMG Final Report for Phase Four – Purchased and Personal Services Contracting Performance Audit Report (Work Request No.: 0105-02-02/03-06, Contract # 30400)

Dear Mr. Hedrick,

Attached is the KPMG January 13, 2003 Final report for Purchased and Personal Services Contracting Performance Audit Report project per Work Request No.: 0105-02-02/03-06, Contract # 30400.

The Final reports are being submitted both in hard copy (10 copies each) and electronically.

Please review these deliverables and indicate your agreement by signing the acceptance section on the following page. Should you have any questions or comments, please do not hesitate to contact me directly at (206) 913-4496 or John O'Malley at (503) 796-7668.

Very truly yours,

KPMG LLP

A handwritten signature in black ink that reads "Karen Saunders". The signature is written in a cursive, flowing style.

Karen Saunders
Partner



Page 2

Please indicate agreement and acceptance of these deliverables by signing below:

Accepted on behalf of the Office of Financial Management (OFM), State of Washington by:

Name: _____

Signature: _____

Title: _____

Date: _____

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Executive Summary

I. Project Scope, Approach, and Methodology

On July 22, 2002, the Office of Financial Management (OFM) contracted with KPMG LLP (KPMG) to conduct a performance audit of personal services and purchased services contracting practices. The seven State agencies selected for the scope of this review included:

- § Department of Transportation
- § Department of Ecology
- § Higher Education Coordinating Board
- § Department of Natural Resources
- § Department of Labor & Industries
- § Department of Personnel
- § Department of General Administration

The scope of this review included the following:

- § Validity and reliability of management's performance measures;
- § A review of internal controls and internal audits;
- § The adequacy of systems used for measuring, reporting, and monitoring performance;
- § The extent to which legislative, regulatory, and organizational goals and objectives are being achieved; and
- § Identification and recognition of better practices.

KPMG began this limited scope performance audit by requesting a list of documents related to personal services and purchased services contracting practices from each agency. KPMG also requested an opportunity to interview those personnel involved in contracting activities at each agency. Using an interview questionnaire approved by OFM, KPMG then conducted the focus interviews and/or group meetings at each agency. The goal of these data-gathering activities was to identify and understand the agency's personal services and purchased services contracting practices, the performance measures in place to monitor those activities, the internal controls and systems supporting the performance measures, the relevant legislative and regulatory goals, guidelines and mandates, the overall agency goals, and better practices related to contracting.

This approach allowed KPMG to gain a general understanding of each agency's personal services and purchased services contracting practices, associated performance measurement efforts, key internal controls, applicable legislative and regulatory goals, guidelines, and mandates, and better practices.

II. Results in Brief

During the course of the performance audit, KPMG identified opportunities for improvement in the State's personal services and purchased services contracting practices. In the sections below, KPMG summarizes these findings and recommendations.

Chapter 2: Personal Services and Purchased Services Contracting Overview

Agencies considered predominately maintain a decentralized model for personal services and purchased services contracting.

KPMG's review of the seven agencies' contracting practices revealed that these organizations typically operate in a decentralized fashion. That is, although the majority of the agencies reviewed maintain some sort of central control point to provide agency-wide technical resources for contracting and to perform

applicable OFM filings, etc., employees within the actual programs at each agency generally initiate, draft, and monitor their respective contracts.

Agencies consider customer satisfaction a high priority.

KPMG's review of personal services and purchased services contracting revealed that agencies with dedicated contracting personnel generally display a high regard for internal customer service. Of the seven agencies reviewed, the departments of Ecology (DOE), General Administration (GA), Labor and Industries (L&I), Natural Resources (DNR), and Transportation (DOT) all maintain at least one full-time equivalent (FTE) dedicated to contracting matters. Focus interviews with contracting staff from each of the five aforementioned entities indicated that internal customer service within their organization's employees generally ranked as a high priority.

Intellectual capital utilized for contracting.

KPMG's review of agency personnel with contracting responsibility revealed that they are generally aware of the internal and external resource points to attain technical assistance.

Chapter 3: Findings and Recommendations

Finding One

While agencies generally do not measure personal services and purchased services performance at the agency-level, agencies do typically employ some method to monitor contract performance.

While each of the seven agencies reviewed during this engagement stressed the important role that personal services and purchased services contracting plays within their organization, none of the agencies provided evidence that performance measurement for contracts occurs at the agency level. Specifically, KPMG noted that none of the agencies produced evidence that they maintain an established set of quantifiable goals and objectives by which to measure, or evaluate, the agency-wide performance of its contracting operations. Rather, KPMG's focus interviews with agency personnel appointed contracting responsibilities, as well as sample test work of personal services and purchased services contracts, suggests that agencies generally monitor performance for personal services and purchased services contracting on a predominately contract-by-contract basis.

KPMG recommends that agencies consider personal services contracting as a risk in their agency-wide risk assessments and take measures to address those risks via the execution of the agency internal audit plan. Although personal services contracting by itself is likely not a core business process to most agencies, given the potential State dollar amounts involved, particularly with major information systems work, it is an area of considerable exposure. Despite potentially being efficient, decentralized contracting operations appear to carry greater risk because of the important roles that persons with non-contracting expertise play in the process since the technical elements of a proposal are typically developed by someone within an agency that has specific knowledge of the service to be contracted, but potentially limited knowledge (if any at all) of the elements involved in contracting. However, this risk can be mitigated by an acknowledgement, via the internal audit risk assessment and the resulting internal audit plan tasks, that addresses this area of business risk.

Finding Two

While agencies generally appear to monitor performance at the contract level, the contracts reviewed involving purchased services provided more measurable metrics of performance than those involving personal services.

Although each of the seven agencies reviewed generally provided evidence of mechanisms to monitor personal services and purchased services contracts at the contract level, KPMG noted that agency-purchased services contracts typically provided for more defined and quantifiable performance metrics.

KPMG recommends that the OFM consider taking steps that require agencies to include performance metrics in their purchased services and personal services contracts, and when appropriate *quantifiable* performance metrics.

Finding Three

While each of the agencies exhibited some form of risk assessment prior to entering into contractual agreement, the level of analysis varies by agency.

Although all seven agencies execute some form of risk assessment to evaluate the consequences of entering into contracts with vendors, KPMG observed that the level of sophistication varied by agency. Assessments ranged from a more cursory, non-formalized evaluation to a detailed assessment that includes an analysis of internal and external operational and financial risks to the agency, as well as the possible impact that entering into a contract with a vendor could pose to the public and State government.

KPMG recommends that the OFM consider taking steps to ensure that State agencies perform a risk analysis prior to entering into contractual agreements with vendors using a set of uniform criteria. At a minimum, risk assessments should include criteria that evaluate internal and external operational and financial risks, as well as the potential impact to the public and governmental entities.

Finding Four

Multiple Master Services Contracts (MSCs) for similar services potentially results in duplicative efforts, vendor confusion, loss in competitive pricing opportunities, and limited vendor performance evaluation.

A common contracting vehicle in governmental entities MSCs typically pre-qualify vendors available to perform specific services, normally on an as-needed basis. KPMG's review of the agencies participating in this assessment indicated that multiple MSCs potentially results in duplicative efforts, vendor confusion, potential loss in economies of scale, and limited knowledge of vendor performance.

KPMG recommends that the OFM consider continuing efforts towards centralizing the use of some MSCs statewide in an attempt to eliminate duplicative activities, minimize vendor confusion, maximize economies of scale, and enhance statewide knowledge of past vendor performance.

Chapter 4: Other Pertinent Information

Observation One

Additional research warranted to verify information derived during informal MSC assessment.

As noted in Finding Four, on their own initiative, members of Professional Services Solutions Team 2 in the GA's Office of State Procurement conducted an informal, limited scope assessment of vendor pricing. KPMG learned that the GA, using unaudited numbers, attempted to compare the hourly rates quoted by vendors for contracts filed by various state agencies with the OFM to the hourly rates quoted by these same vendors for similar-type services for which they were pre-qualified under a GA MSC. This informal analysis suggested that in some instances, vendor's hourly rates established in contracts filed through the OFM varied from those hourly rates established in a GA MSC to perform similar services.

Despite the fact that GA's informal review used unaudited numbers, and some contend that this analysis did not represent a true comparison of like projects, contract terms, the results appear to warrant further follow-up regarding the State's use of MSCs. An independent assessment of MSCs would not only substantiate or disprove GA's initial review, but would also evaluate the organizational and infrastructure impacts and requirements if the State pursued some type of mandated and centralized MSC forum.

Observation Two

Agencies identified several contracting observations outside of this audit's scope.

In addition to the findings and recommendations noted in Chapter 3, and the observation highlighted in Observation One, KPMG's interviews with agency personnel assigned contracting responsibilities

revealed numerous contracting issues/observations not within the scope of this project. Table 1 highlights observations by agency:

Table 1
Other Contracting Observations Identified by Agencies

Issue #	Issue	DOE	GA	HECB	L&I	DNR	DOP	DOT
1	Consider reviews of dollar thresholds for competition, required by OFM, GA, and/or DIS, to take place on a regular basis or in response to significant changes in economic conditions.	X	X	X	X	X	X	X
2	Electronic filing with the OFM has increased contract-filing efficiency.	X		X		X		
3	GA recently took steps to improve its customer service provided to using agencies as compared to past years via training, trade shows, etc.). However, GA should consider conducting more outreach to potential user agencies to further market its suite of services (i.e., offer an overview training course regarding general authorities, etc.).	X	N/A	X				X
4	The OFM, DIS, and GA should consider synthesizing contracting rules, regulations, and requirements statewide to enhance customer service to agencies as well as vendors.	X	X	X	X	X	X	X
5	Aside from MSCs, there is no continuity among State agencies' contracting processes and, as a result, agencies fail to regularly receive the best of the vendor community.		X		X			
6	OFM should consider allowing any "canned" or "off the shelf" management development training to be considered a purchased service rather than a personal service.						X	
7	The State should commission a detailed cost-benefit analysis of the two-tiered MSC approach versus issuing RFP's for specific projects/services as the need arises.		X					

Chapter 1: Introduction and Methodology

Introduction

The Washington State Legislature directed the Washington State Office of Financial Management (OFM) under Section 127 of Engrossed Substitute Senate Bill 6387 to conduct a performance audit of personal services and other types of contracts to evaluate the State's contracting practices. OFM selected purchased services contracting practices as the additional contracting functional area as well as the seven state agencies comprising the scope of this audit.

Project Background

On July 22, 2002, the Office of Financial Management contracted with KPMG LLP (KPMG) to conduct a performance audit of personal services and purchased services contracting practices. The seven state agencies selected under the scope of this review included:

- § Department of Transportation
- § Department of Ecology
- § Higher Education Coordinating Board
- § Department of Natural Resources
- § Department of Labor & Industries
- § Department of Personnel
- § Department of General Administration

The scope of this review included the following:

- § Validity and reliability of management's performance measures;
- § A review of internal controls and internal audits;
- § The adequacy of systems used for measuring, reporting, and monitoring performance;
- § The extent to which legislative, regulatory, and organizational goals and objectives are being achieved, and
- § Identification and recognition of better practices.

KPMG began this limited scope performance audit by requesting a list of documents related to personal services and purchased services contracting practices from each agency. KPMG also requested an opportunity to interview those personnel involved in contracting activities at each agency. Using an interview questionnaire approved by OFM, KPMG then conducted the focus interviews and/or group meetings at each agency. The goal of these data-gathering activities was to identify and understand the agency's personal services and purchased services contracting practices, the performance measures in place to monitor those activities, the internal controls and systems supporting the performance measures, the relevant legislative and regulatory goals, guidelines, and mandates, the overall agency goals, and better practices related to contracting.

This approach allowed KPMG to gain a general understanding of each agency's personal services and purchased services contracting practices, associated

performance measurement efforts, key internal controls, applicable legislative and regulatory goals, guidelines, and mandates, and better practices.

Methodology *Performance Audit Approach and Methodology*

In the execution of the audit's work plan, KPMG employed the following methodologies:

- § **Focus Interviews.** KPMG conducted focus interviews and group meetings with key personnel involved in contracting activities from each agency. The goal of these meetings was to identify and understand the agency's general contracting practices, the agency-wide performance measures in place to monitor those activities, the internal controls and systems supporting performance monitoring, the relevant legislative and regulatory goals, guidelines, and mandates, and overall agency contracting goals and any better practices.
- § **Document Review.** KPMG read documentation relating to contracting processes received from each agency. KPMG also read previous internal and external audit reports and risk assessments to identify areas previously identified in prior audits related to performance measurement issues.
- § **Perform Sample Test work.** KPMG performed limited sample test work at each target agency. The purpose of the test work was to seek out evidence of performance measurement activities at the individual contract level at each agency.
- § **Construct Issue Matrix.** Using the information learned during the course of the focus interviews and document review, the team constructed an issue matrix outlining issues for further consideration by OFM or other relevant state agencies. The issue matrix is found in Chapter 4 of this report.
- § **Identify Potential Better Practices.** KPMG identified potential better practices related to personal services and purchased services contracting during the course of fieldwork for potential consideration by other agencies. KPMG incorporated these observations into the recommendations for Findings One through Four, as appropriate.

Constraints and Limitations

Constraints and limitations present special factors that should be considered in the interpretation of the performance audit results. Key factors to consider include:

- § In the execution of the performance audit, KPMG followed generally accepted government auditing standards as set forth in the General Accounting Office's Government Auditing Standards "Yellow Book" (see Appendix B Table 2 for the "Yellow Book" reference table).

- Š The audit was not intended to be a comprehensive and exhaustive review of all practices and performance measurement activities relating to personal services and purchased services contracting for each agency.
- Š Supporting evidence obtained during the conduct of this audit is largely testimonial evidence. Test work performed was not substantive in nature.

Report Organization

KPMG organized the performance audit in the following manner:

- Š **Executive Summary:** summarizes key findings and recommendations with personal services and purchased services contracting and associated benefits.
- Š **Introduction and Methodology:** describes the performance audit scope, approach, and methodology used to conduct fieldwork activities, as well as limitations and constraints pertinent to interpretations of the performance audit findings.
- Š **Personal Services and Purchased Services Contracting Overview:** provides a general overview of the seven agencies' personal services and purchased services contracting operations and highlights information learned during the KPMG team's focus interviews, document review, and non-substantive test work.
- Š **Findings and Recommendations:** identifies the observations, findings, and recommendations associated with each agency's personal services and purchased services contracting activities.
- Š **Other Pertinent Information:** lists findings or areas for further consideration that are considered outside the scope of this performance audit.
- Š **Appendices:**
 - Š **Appendix A:** presents the questionnaire used to support KPMG's data-gathering efforts.
 - Š **Appendix B:** displays agency responses to the report. When appropriate, KPMG modified the initial version of the report based upon agency comments.
 - Š **Appendix C:** contains a General Accounting Office (GAO) "Yellow Book" Reference Table.

Chapter 2: Personal Services and Purchased Services Contracting Overview

Chapter Overview

This chapter provides a general overview of the seven agencies' personal services and purchased services contracting operations and highlights information learned during the KPMG team's focus interviews, document review, and non-substantive test work. As this chapter only provides an overview of agency contracting operations, the KPMG team does not present any findings or recommendations for this chapter of the report.

Contracting Models

Agencies considered predominately maintain a decentralized model for personal services and purchased services contracting.

KPMG's review of the seven agencies' contracting practices revealed that these organizations typically operate in a decentralized fashion. That is, although the majority of the agencies reviewed maintain some sort of central control point to provide agency-wide technical resources for contracting and to perform applicable OFM filings, etc., employees within the actual programs at each agency generally initiate, draft, and monitor their respective contracts. The following example illustrates this decentralized model:

- Department of Ecology (DOE) – The DOE maintains a Contracts Administrator who functions as the central checkpoint for all of the DOE's contracts and retains final approval authority on contracts. Using a skeleton of the OFM request for proposals (RFP) format, the DOE's various programs draft the scope of work and technical fundamentals associated with a particular project. Once the program completes the technical elements of the contract, the program forwards the draft document, along with a DOE "Contract/ Grant/Loan Amendment Approval Form" to the Contracts Administrator for review. The DOE's Contracts Administrator analyzes each draft RFP/contract for such items as ethics, budget availability, completeness, scope specificity, and adherence to DOE policies and procedures, and returns the document to the program for any changes deemed necessary. This submittal/review process continues until the Contracts Administrator deems that each RFP/contract meets the appropriate standards, albeit OFM, Department of General Administration (GA), and/or the Department of Information Services (DIS), as appropriate. The DOE executes a contract only upon signature from the program's Budget Analyst and the Contracts Administrator.

Six of the seven agencies participating in this assessment (with the exception of GA) utilize similar decentralized contracting models (i.e., end-user initiated, centralized control points for coordination and approval, and decentralized administration/performance monitoring) to the DOE process noted above, regardless of whether or not the agency maintains dedicated contracting personnel.

Customer Service

Agencies consider customer satisfaction a high priority.

KPMG's review of personal services and purchased services contracting revealed that agencies with dedicated contracting personnel generally display a high regard for internal customer service. Of the seven agencies reviewed, the departments of Ecology, General Administration, Labor and Industries, Natural Resources, and Transportation all maintain at least one full-time equivalent (FTE) dedicated to contracting matters. Focus interviews with contracting staff from each of the five aforementioned entities indicated that internal customer service within their organization's employees generally ranked as a high priority. The following example illustrates one agency's emphasis on maintaining and assessing customer satisfaction:

- › **Department of Labor and Industries (L&I)** – The L&I maintains a Contracts Office that consists of one Contract Manager who oversees five (5) Contract Specialists. The Contract Specialists provide input to over 300 Contract Administrators throughout the L&I's various programs. The L&I's Contracts Office likens their operations to that of a law office in that they serve clients (Contract Administrators) and provide services to those clients. For example, at the outset of a project, L&I's Contract Specialists discuss the contracting options available to Contract Administrators for a particular project (i.e., to outsource or not to outsource, etc.) and also discuss the inherent risks (i.e., risk assessment) of executing a particular contract action. According to the L&I, this process allows the Contract Specialists to function in consultative empowering roles with their clients rather than strictly as regulators and gatekeepers.

In addition to promoting a client-friendly atmosphere, the L&I's Contracts Office also surveys all clients after the Office assists with any aspect of a contract-related service. This survey documents the Contract Specialist who worked the contract, the contract number, the contractor, the rating for each of the five questions asked on a Likert Scale of zero to five (with zero equaling 0 percent satisfaction and five equaling 100 percent satisfaction), and the average score per contract.

Because the majority of Contract Administrators within each agency perform other duties as part of their job functions, KPMG noted that agencies with dedicated contracting staff generally recognize the importance of making the process as convenient as possible.

Technical Assistance

Intellectual capital utilized for contracting.

KPMG's review of agency personnel with contracting responsibility revealed that they are generally aware of the internal and external resource points to attain technical assistance. In order to assess this knowledge, KPMG conducted focus interviews with key personnel involved in contracting activities from each of the

seven agencies, including everyone from contract managers who oversee dedicated agency Contract Specialists to Contract Administrators responsible for the daily supervision of a contract's performance. Insights from these focus interviews disclosed the following:

- › **Internal Resources Acknowledged** – Contract Administrators responsible for the development and/or daily oversight of contracts universally recognized the contact points within their agency to obtain technical assistance.
- › **External Resources Leveraged** – Discussions with Contract Managers generally recognized that representatives from the OFM serve as subject matter experts. Specifically, one agency representative maintained that their organization relies on OFM guidelines regarding contracting changes, etc. because OFM does a good job of consulting with agencies and using working committees to implement legislative changes. Similarly, another agency representative indicated that they communicate with OFM, GA, or DIS on complicated or confusing issues involving potential sole source awards for personal services or purchased services contracts.

Notwithstanding, although to a lesser extent than the OFM, agency personnel also recognized the utility of GA regarding contracting needs. For example, one agency representative involved with purchased services indicated that they defer questions to GA because of their purchased services knowledge.

- › **Washington Association of Contract Specialists (WACS) Found Beneficial** – Several agency representatives remarked about the utility of the WACS as a forum to discuss contracting issues with other state agencies on a monthly basis. One agency representative noted that one product from a recent WACS forum was a statewide contract boilerplate now employed by all agencies.
- › **Training and Resources Welcomed** – Agency representatives generally identified OFM's free training as helpful and uniformly recognized the efficacy of the "Guide to Personal Services Contracting" handbook. Additionally, some representatives indicated that GA's annual "trade show" provides helpful contracting information.

Chapter 3: Findings and Recommendations

Chapter Overview

This chapter outlines the KPMG team's key findings and recommendations learned during the execution of the audit plan focus interviews, document review, and sample testing of personal services and purchased services contracts.

Finding One *While agencies generally do not measure personal services and purchased services performance at the agency-level, agencies do typically employ some method to monitor contract performance.*

While each of the seven agencies reviewed during this engagement stressed the important role that personal services and purchased services contracting plays within their organization, none of the agencies provided evidence that performance measurement for contracts occurs at the agency level. Specifically, KPMG noted that none of the agencies produced evidence that they maintain an established set of quantifiable goals and objectives by which to measure, or evaluate, the agency-wide performance of its contracting operations. Rather, KPMG's focus interviews with agency personnel appointed contracting responsibilities, as well as sample test work of personal services and purchased services contracts, suggests that agencies generally monitor performance for personal services and purchased services contracting predominately on a contract-by-contract basis.

Lack of Agency Level Performance Measurement – According to several agency Contract Managers and Contract Administrators, contract performance only receives agency level attention when, in one form or another, a contract proves problematic. For example, at the DOE, executive management only receives contract information on an exception basis if the need arises. If a contractual issue does become visible to agency leadership, KPMG learned that the DOE's Fiscal Officer generally resolves such problems.

Evidence of Agency Level Monitoring – Although not specifically tracking performance at the agency-level, KPMG did observe that some agencies attempt to regularly report their agency's contract activities at some level. The following example illustrates this effort:

- ›
Department of Labor and Industries (L&I) – The L&I's Contracts Manager who oversees the agency's Contracts Office submits quarterly reports to superiors regarding contracting activities and service delivery during the last quarter and links those activities to the L&I's agency level "Performance Agreement Scorecard." However, during this report's progression up the L&I's chain-of-command (i.e., Contracts Manager à Management Services Manager à Administrative Services Director à Deputy Director à Director), portions of the original contracting information provided may or may not be included in the consolidated report at each subsequent review level.

KPMG observed comparable endeavors involving attempts to report contract activities to executive management among the remaining six agencies to varying degrees. However, unless contracting serves as one of an agency's core business processes, as evidenced in that organization's strategic plan complete with linked performance measures and outcomes, the likelihood of such information receiving executive management attention remains minimal. With the exception of GA, the seven agencies participating in this analysis use personal services and purchased services contracting as enablers to accomplishing their core business. Consequently, operating in this fashion increases the risk of having little or no opportunity to offer corrective actions to emerging problems.

Recommendation One

KPMG recommends that agencies consider personal services contracting as a risk in their agency-wide risk assessments and take measures to address those risks via the execution of the agency internal audit plan. Although personal services contracting by itself is likely not a core business process to most agencies, given the potential state dollar amounts involved, particularly with major information systems' work, it is an area of considerable exposure. Despite potentially being efficient, decentralized contracting operations appear to carry greater risk because of the important roles that persons with non-contracting expertise play in the process since the technical elements of a proposal are typically developed by someone within an agency that has specific knowledge of the service to be contracted, but potentially limited knowledge (if any at all) of the elements involved in contracting. Additionally, the majority of Contract Administrators within each agency perform other duties as part of their job functions.

However, this risk can be mitigated by an acknowledgement, via the internal audit risk assessment and the resulting internal audit plan tasks, that addresses this area of business risk. For example:

- › **Department of Transportation (DOT):** KPMG noted that the DOT's internal audit plan for Calendar Year 2002 specifically addresses personal services contracting as an emphasis area identified through the agency's risk analysis process. Specific interest areas include reviews of database updates, contract language, employee training, contract selection and bid process, as well as adherence to State processes and guidelines.

In addition to the specific measures planned by the DOT, there are other techniques which may help mitigate contracting risks in personal services and purchased services contracting, e.g., periodic file reviews of contracts against pre-established agency risk criteria, regular file reviews at project closeout, and/or some resulting feedback to agency contract administrators, would potentially help agencies ensure that all elements of a contract's scope of work were followed, internal controls were observed, and agencies' resources safeguarded.

Finding Two *While agencies generally appear to monitor performance at the contract level, the contracts reviewed involving purchased services provided more measurable metrics of performance than those involving personal services.*

Although each of the seven agencies reviewed generally provided evidence of mechanisms to monitor personal services and purchased services contracts at the contract level, KPMG noted that agency-purchased services contracts typically provided more defined and quantifiable performance metrics. The following two examples attempt to illustrate this current dichotomy:

- › **Department of Natural Resources (DNR)** – KPMG read a DNR purchased service contract for security that totaled \$14,565. KPMG’s file review indicated that the DNR required that the vendor submit daily security reports documenting the activities performed in each of the vendor’s established shifts. KPMG noted that the DNR Project Manager monitored the vendor’s performance on a daily basis by comparing the daily security reports submitted by the vendor to the actual scope of work defined in the purchased services contract. KPMG observed that the DNR Project Manager documented performance variances via a written memo to the vendor and via verbal communication. Per the contract, the DNR required the vendor to take corrective action within 30 days or risk contract termination.
- › **Department of Natural Resources (DNR)** - KPMG read a DNR personal services contract for Marine Resources that totaled \$137,140. The nature of this project was to research and monitor the growth of a particular marine organism in the Nearshore Habitat. Since the method/technology for providing this service was experimental and had not yet been employed elsewhere, it was extremely difficult to establish performance measures for this particular contract. We noted that the DNR Project Manager monitored the status of the contract via the use of a detailed work order checklist to ensure satisfaction of the required interim/final deliverables. Although the aforementioned activities generally demonstrate an active monitoring role of this personal services contract, this example demonstrates the difficulty involved in attempting to measure the performance of some personal services contracts.

In sum, KPMG’s review indicated that scope of work requirements included in purchased services contracts generally provided for more definitive performance monitoring and measuring metrics than did the personal services contracts reviewed.

During focus interviews with KPMG, some agency representatives identified the lack of measurable milestones as a shortcoming to personal services contracts in general. Although this may largely result from the iterative nature of a purchased service (for instance, either a window is clean or it is not), identifying definitive metrics for personal services contracts, although potentially more complicated, agencies can establish such performance measures through the use of creative and inventive processes. For example, the L&I’s Contracts Office

described a seemingly innovative process recently implemented as part of their pre-contracting process. The L&I now requires bidders, as part of their RFPs, etc., to detail how they as a vendor plan on assisting the L&I monitor their performance. Although the L&I does not implement the suggestions of vendors in each instance, the L&I's Contracts Manager indicated that in some cases this technique has helped the L&I establish quantifiable metrics to a personal services contract that might not have lent itself to such measurement at first glance. In addition, with each subsequent proposal, the L&I increases its repository of potential performance metrics.

Recommendation Two

KPMG recommends that the OFM consider taking steps that require agencies to include performance metrics in its personal services contracts, and when appropriate *quantifiable* performance metrics. Agencies might consider employing a mechanism similar to that practiced at L&I to help establish quantifiable performance metrics for contracts.

Finding Three *While each of the agencies exhibited some form of risk assessment prior to entering into contractual agreement, the level of analysis varies by agency.* Although all seven agencies execute some form of risk assessment to evaluate the consequences of entering into contracts with vendors, KPMG learned that the level of sophistication varied by agency. During this assessment, KPMG considered information from a report published in June 2002 by Miller & Miller Consulting Services, P.S. who noted that risk assessments in Washington State were haphazardly performed at the agencies considered.¹ The following two examples illustrate assessments designed to analyze the risks associated with entering into contracts with vendors:

- › **Higher Education Coordinating Board (HECB)** – As a result of the focus interview with the HECB's contracting point-of-contact KPMG learned that the HECB conducts risk assessments during its contracting process, but nothing is formalized. For example, the HECB makes an effort (generally through telephone conversations and electronic mail) to address/inquire as to whether or not such services are provided by another state employee, etc.

¹ Miller & Miller Consulting Services, P.S. June 2002. "Report on Issues Related to Risk Based Audits of the State's Personal and Client Service Contracting Practices."

- Department of Natural Resources (DNR) – KPMG’s review of a purchased services contract awarded by the DNR found evidence that the agency performs risk assessments at the regional level during the pre-contract stage. The DNR uses a “Decision/Action Summary Report” to document its risk assessment and the report includes the following: summary statement of the project, brief history of the project, expenditure of funds analysis, discussion of the options considered and why they were rejected, and potential benefits of the contract.

In the second example provided, the DNR uses established criteria to evaluate the risks associated with entering into contractual agreements. These criteria generally appear to assess potential internal and external operational and financial risks to the agency, as well as the possible impact that entering into a contract with a vendor could pose to the public and state government.

Recommendation Three

KPMG recommends that the OFM consider taking steps to ensure that state agencies perform a risk analysis prior to entering into contractual agreements with vendors using a set of uniform criteria. At a minimum, similar to that performed by the DNR, risk assessments should include criteria that evaluate internal and external operational and financial risks, as well as the potential impact to the public and governmental entities.

Finding Four Multiple Master Services Contracts (MSCs) for similar services potentially results in duplicative efforts, vendor confusion, loss in competitive pricing opportunities, and limited vendor performance evaluation.

While several state agencies issue Master Services Contracts (MSCs) for similar services, this practice potentially results in duplicative efforts by agencies, vendor confusion, loss in competitive pricing opportunities, and limited statewide knowledge of previous vendor performance.

MSCs Frequently Used to Pre-qualify Vendors – A common contracting vehicle in governmental entities (municipalities within the States of Arizona and California use their own master service-type contracts), MSCs typically pre-qualify vendors available to perform specific services, normally on an as-needed basis. MSCs generally require vendors to submit their qualifications for providing a range of desired services. Those vendors meeting or exceeding the predetermined minimum qualifications set forth in the MSC receive placement on a “pre-approved” vendor list according to the categories for which they qualified. Vendors approved in a category then compete on projects with a scope of work that match the category. Work orders are typically awarded to the lowest priced, qualified bidder, unless the work order solicitation identifies other specific evaluation criteria.

Duplication of Efforts Exists – KPMG’s review indicated that five of the seven agencies participating in this analysis issue some form of MSCs. For example, while GA issues MSCs that all state agencies can utilize, L&I, DNR, DOP, and DOT issue MSCs specifically for their respective agency’s use. KPMG’s analysis revealed that some of the MSCs issued by the aforementioned agencies are for similar types of services. Not only does this practice potentially result in duplicative contracting vehicles across state agencies, but this procedure also results in individual agencies duplicating efforts by separately developing each MSC’s criteria then evaluating and pre-qualifying separate sets of vendors.

Varying MSC Practices Potentially Confuse Vendors – Discussions with several agency Contract Managers and Contract Administrators revealed the potential for vendor confusion due not only to the multitude of MSCs requesting similar services, but also because of differing MSC practices. For example, KPMG learned that the DOP maintains a MSC for Training services and accepts vendor Statements of Qualifications on an on-going basis. Conversely, GA maintains a MSC for IT services requiring vendors to annually submit Statements of Qualifications by an established deadline for consideration. Similarly, KPMG learned that some agencies pre-qualify their MSCs biennially while others perform this annually or even continuously.

Possible Loss in Competitive Pricing – During this analysis, contracting representatives from GA provided KPMG results from an informal, limited scope assessment of vendor pricing. Using unaudited numbers, GA attempted to compare the hourly rates quoted by vendors for contracts filed by various state agencies with the OFM to the hourly rates quoted by these same vendors for similar-type services for which they were pre-qualified under a GA MSC. This informal analysis demonstrated that, in some instances, vendor hourly rates varied from those established in a GA MSC to perform similar services.

Vendor Performance Currently Not Shared Across Agencies – Under the current format, the decentralized aspect of MSCs reduces the probability that agencies share information regarding vendor performance. For example, currently, if an agency contracts with a vendor and has a bad experience, no other state agency may ever learn of this. On the other hand, GA requires agencies that use its MSCs to complete a “vendor performance report card” on how each vendor executed the project’s requirements. This tool allows GA to track vendor performance across projects and serves as a mechanism for identifying vendors providing sub-par products/services, etc.

Recommendation Four

KPMG recommends that the OFM consider continuing efforts towards centralizing the use of MSCs statewide in an attempt to eliminate duplicative activities, minimize vendor confusion, maximize economies of scale, and enhance statewide knowledge of past vendor performance. We encourage the OFM to involve impacted state agencies in this process.

Chapter 4: Other Pertinent Information

Chapter Overview

This chapter highlights findings or areas for further consideration considered outside the scope of this performance audit.

Observation One

Additional research warranted to verify information derived during informal MSC assessment.

As noted in Finding Four, on their own initiative, members of Professional Services Solutions Team 2 in the GA's Office of State Procurement conducted an informal, limited scope assessment of vendor pricing. KPMG learned that GA, using unaudited numbers, attempted to compare the hourly rates quoted by vendors for contracts filed by various state agencies with the OFM to the hourly rates quoted by these same vendors for similar-type services for which they were pre-qualified under a GA MSC. This informal analysis suggested that in some instances, vendor's hourly rates established in contracts filed through the OFM varied from those hourly rates established in a GA MSC to perform similar services.

Despite the fact that GA's informal review used unaudited numbers, and some contend that this analysis did not represent a true comparison of like projects, contract terms, etc., the results appear to warrant further follow-up regarding the State's use of MSCs. An independent assessment of MSCs would not only substantiate or disprove GA's initial review, but could also evaluate the organizational and infrastructure impacts and requirements if the State pursued some type of mandated and centralized MSC forum.

Observation Two

Agencies identified several contracting observations outside of this audit's scope.

In addition to the findings and recommendations noted in Chapter 3, and the observation highlighted above, KPMG's interviews with agency personnel assigned contracting responsibilities revealed numerous contracting issues/observations not within the scope of this project. The following Table highlights observations by agency:

Table 1
Other Contracting Observations Identified by Agencies

Issue #	Issue	DOE	GA	HECB	L&I	DNR	DOP	DOT
1	Consider reviews of dollar thresholds for competition, required by OFM, GA, and/or DIS, to take place on a regular basis or in response to significant changes in economic conditions.	X	X	X	X	X	X	X
2	Electronic filing with the OFM has increased contract-filing efficiency.	X		X		X		

Table 1 - Continued
Other Contracting Observations Identified by Agencies

Issue #	Issue	DOE	GA	HECB	L&I	DNR	DOP	DOT
3	GA recently took steps to improve its customer service provided to using agencies as compared to past years via training, trade shows, etc.). However, GA should consider conducting more outreach to potential user agencies to further market its suite of services (i.e., offer an overview training course regarding general authorities, etc.).	X	N/A	X				X
4	The OFM, DIS, and GA should consider synthesizing contracting rules, regulations, and requirements statewide to enhance customer service to agencies as well as vendors.	X	N/A	X	X	X	X	X
5	Aside from MSCs, there is no continuity among State agencies' contracting processes and, as a result, agencies fail to regularly receive the best of the vendor community.		X		X			
6	OFM should consider allowing any "canned" or "off the shelf" management development training to be considered a purchased service rather than a personal service.						X	
7	The State should commission a detailed cost-benefit analysis of the two-tiered MSC approach versus issuing RFP's for specific projects/services as the need arises.		X					

Appendices

Appendix A: Focus Interview Questionnaire

STATE OF WASHINGTON
Personal & Purchased Services Contracting Performance Audit
Focus Interview Questionnaire

Introduction

1. How long have you served in Number of years with State government?
2. How long have you served in your current position?
3. Describe the responsibilities of your current position as it relates to personal and purchased service contracting practices.

Mission/General

4. What specifically is your contracting function intended to accomplish? What is your mission?
5. How well does your agency's management understand the role of contracting? How integral is contract monitoring/management to your agency's operations?
6. Explain and differentiate the requirements for different types of contracting. Does your agency clearly understand the extent of its authority for their contracting practices, specifically the different requirements for the different types of contracting?
7. Where/who do you consult for procurement information?
8. What type of internal contracting policies does your agency have in place? How do you communicate contract principles (laws, regulations) within your agency?
9. Do you consider the State's current contracting practices efficient and economical? If not, what are the causes of inefficient or uneconomical practices? What suggestions do you have for modifications or improvements?

Organization

10. What are the key organizational elements supporting the personal and purchased service contracting functions within this agency?
11. How does your agency conduct the two functions similarly/differently?
12. What is the overall size of the staff allocated to these functions? (Org chart(s)?)
13. Describe the duties of staff members involved in these functions? (e.g. pre- contract planning, competitive solicitation process, contract drafting, contract management and monitoring, contract payment process, and contract close-out etc.) What are their responsibilities?
Process
14. Provide an overview of how your agency conducts the personal and purchased service contracting function. (e.g. pre-contract planning, competitive solicitation process, contract drafting, contract management and monitoring, contract payment process, and contract close-out, etc.)
15. Are the processes/activities conducted similarly/differently by other agencies? (How do you know, can you share an example?) What are the pros and cons of similarities/differences? **(Note: This question would apply to an interviewee having experience in more than one agency.)**

Performance Measurement

16. What type of performance measures applicable to personal and purchased service contracting does your agency have? If so, are they appropriate, valid, etc. and why?
17. How do you, your team, the agency track accomplishments/shortcomings with respect to the personal and purchased service contracting functions?

18. What types of systems/mechanisms/processes do you (or others in the agency) use to assess performance?
19. How does your agency know if its contract purposes/outcomes/performance measures are being achieved?
20. How does your agency measure the efficiency and effectiveness of its contracting practices? What efficiencies could be gained throughout the contracting process: pre-contract planning, competitive solicitation process, contract drafting, contract management and monitoring, contract payment process, and contract close-out?
21. How does your agency formally or informally report on the results of contract monitoring? The results of contractor performance?
22. What are the reports management receives to inform it as to:
 - ## Status of work received, performed, completed, or backlogged?
 - ## Use of resources (e.g. money, people, equipment)?
 - ## Achievement of personal and purchased service contracting functional objectives?**(Obtain sample reports, if available)**

Internal Controls

23. Does your agency have a personal and purchased service contracting internal controls? What are the strengths and weaknesses of this system?
24. Explain how your agency conducts internal risk assessments of its contracting practices? (Are they included in your agency-wide risk assessment?)
25. When risks/weaknesses are identified, how are they addressed? How are they addressed in a timely fashion?
26. Does your agency devote resources to monitoring compliance with contracting rules/policies? How do you determine that such resources are adequate to perform this task?
27. What internal audits or management analyses are performed on your agency's personal and purchased service contracting function?

Compliance

28. Have there been any recent statutory, rules, regulations, or administrative policies or procedural changes that have impacted the personal and purchased service contracting function in your agency? Explain.
29. What aspect of such changes does each member of your contracting team handle?
30. How do you ensure that mandated changes are properly implemented within your agency?
31. What external audits or reviews are conducted on this contracting function and by whom?

Improvement Opportunities

32. What changes to personal and purchased service contracting would you suggest to improve state business practices?
33. What obstacles are viewed as most serious in achieving the functional objectives for both types of contracting?
34. What factors or influences adversely impact these functions?
35. What contract practices are being done well? Could they be duplicated statewide? (Dave: #9 asks a similar question but I'd like to see if anything further comes to mind after going through the interview process.)

Appendix B: Agency Responses



State of Washington
DEPARTMENT OF GENERAL ADMINISTRATION

Office of State Procurement
Rm. 201 General Administration Building, P.O. Box 41017 · Olympia, Washington 98504-1017 · (360) 902-7400
<http://www.ga.wa.gov/purchase>
State of Washington

January 22, 2003

Mr. David R. Gmelich

KPMG
400 E. Van Buren Street, Suite 11000
Phoenix, AZ 85004-2207

Reference: Personal Services and Purchased Services Contracting, Limited Scope Performance
Audit Draft Report dated November 15, 2002.

Dear Mr. Gmelich:

Thank you for the opportunity to comment on the draft report. This is a follow-up to our telephone conversation on Friday, November 22, 2002. Included herein are some areas we discussed relative to the draft report. For the purpose of clarity as regards purchasing in the State of Washington, I want to point out that within the Department of General Administration; the Office of State Procurement (GA/OSP) operates its contracting efforts in a centralized manner. This gives us a perspective that crosses multiple agencies and customer groups. Further, GA/OSP contracts for personal and purchased services consistently employ performance based deliverables and performance measurement for each agency contracting event which is shared with the agencies.

Finding Three: The recommendation would be further clarified with an example of the risk analysis suggested in the recommendation, to include examples of criteria to be used.

Finding Four: Under Duplication of Efforts Exists, while we agree that considerable duplication exists, GA/OSP master services contracting programs are designed for multiple agency use. Under Varying MSA Practices Potentially Confuse Vendors, it should be noted that the DOP MSA is just for its own use, while the GA MSA is open for use by all agencies and political sub-divisions. We suggest the sentence that reads "Conversely, while GA also maintains a MSA for IT Services, it fails to allow vendors the opportunity to submit Statements of Qualifications following a defined deadline until the expiration of the agreement" be replaced as follows: "Conversely, GA maintains a statewide MSA for IT Services that requires vendors to compete for pre-qualification status. The GA competition is conducted annually for new vendors or vendors who previously failed to qualify."

Recommendation Four: GA/OSP believes the "feasibility" of centralizing personal and purchased services contracting has been proven. We suggest the recommendation be revised to encourage the use of

centralized master service contracting programs and measure the potential benefits. With the State of Washington facing severe budget difficulties, we believe it is important to understand the cost of these duplicative contracting efforts.

Observation Two, Issue # 3: Since GA and GA/OSP have undertaken a number of outreach efforts in the recent past, it would be helpful if the suggestion “should consider conducting more outreach to potential user agencies” included some outreach examples or ideas for improving this area. Thanks again for the opportunity to comment on the draft report. If you have any questions, please contact me at (360) 902-7192 or sdemel@ga.wa.gov.

Sincerely,

Steven M. Demel
Enterprise Supply Chain Manager
Office of State Procurement



STATE OF WASHINGTON
DEPARTMENT OF ECOLOGY

P.O. Box 47600 • Olympia, Washington 98504-7600
(360) 407-6000 • TDD Only (Hearing Impaired) (360) 407-6006

November 25, 2002

Mr. Dave Gmelich
KPMG LLP
400 East Van Buren St. STE 1100
Phoenix, AZ 85004-2207

Dear Mr. Gmelich: *Dave*

Re: Personal Services and Purchased Services
Limited Scope Performance Audit – DRAFT REPORT

Ecology staff have reviewed your draft report and have requested I share the following comments with you.

Under Finding Three you recommend that the Office of Financial Management (OFM) considers taking steps to ensure agencies perform a risk analysis prior to entering into contractual agreements with vendors. If this were fully implemented on all agreements written by every agency, in some cases it could become a significant administrative burden with little added value.

An item not addressed in your report which was identified by staff here, is the need for more training, possibly even mandatory annual training, provided by the Department of General Administration and/or OFM to all agency staff with any involvement in purchased service and personal service contracting.

I would like to commend you and your staff for the excellent job you did of capturing the essence of how our agency performs in these two areas in such a very short time.

You can reach me at (360) 407-7052 if you have any questions.

Sincerely,

Gary M. Zeiler
Gary M. Zeiler
Fiscal Officer

GZ:lar (239L1102.doc)
Via Federal Express Priority Overnight

BOB CRAVES
Chair



MARC GASPARD
Executive Director

STATE OF WASHINGTON
HIGHER EDUCATION COORDINATING BOARD

917 Lakewidge Way • PO Box 47430 • Olympia, Washington 98504-3430 • (360) 753-7809 • TDD (360) 753-7209

November 25, 2002

Mr. Dave Gmelich
KPMG LLP
3100 Two Union Square
601 Union Street
Seattle WA 98101

Dear Mr. Gmelich,

Thank you for the opportunity to respond to the draft *Personal Services and Purchased Services Contracting Limited Scope Performance Audit* report. We recognize the difficulty and complexity of this audit, especially within the tight timeframe allowed. We commend you and your staff for your work, and the Board welcomes the opportunity to benefit from this review.

We agree with the information in your report. However, we would like to express a concern with the recommendation in Finding One. The HECB, like many small agencies with fewer than 100 FTEs, does not have sufficient resources to support an extensive internal audit function. Many other observations in your discussion about the need for performance measurements in personal and purchased service contracts are more easily done by small agencies. Some of these include establishing measurements in the contract negotiation phase, including an assessment of the contracting process in the agency's internal control risk assessment, and performing file reviews at contract close out. Requiring consideration in an agency-wide internal audit plan would be burdensome to agencies of our size.

We appreciate the opportunity to share this concern with you and look forward to discussing it further with the Office of Financial Management as it considers implementing the recommendations in your report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Marc Gaspard", written in a cursive style.

Marcus S. Gaspard
Executive Director



STATE OF WASHINGTON
DEPARTMENT OF LABOR AND INDUSTRIES
Administrative Services, Contracts Office, PO Box 44831, Olympia, WA 98504-4831

December 27, 2002

Mr. David R. Gmelich
KPMG
400 E. Van Buren Street, Suite 11000
Phoenix, AZ 85004-2207

Reference: Personal Services and Purchased Services Contracting, Limited Scope Performance Audit Draft Report dated November 15, 2002.

Dear Mr. Gmelich:

Thank you for the opportunity to comment on the draft report. This is a follow-up to my initial review of the report on Friday, November 22, 2002.

I believe it is important to **highlight** that the scope of the report encompasses more than one type of contract. Government contracting is regulated by many different agencies. The regulations for each type differ greatly. Implementing these differences are the basis for the duplication or confusion covered in *Finding Four*. Dedicated staff in the regulatory agencies and many of the larger agencies continually improve operations independently. Each new and improved process is more efficient but without collaboration they add to the vendor confusion and costly duplication. Like this report, the *Master Service Agreements* at the Department of General Administration (GA) encompass more than one type of contract and crosses regulatory boundaries. Collaboration amongst the agencies is a very big first step in reducing vendor confusion and improving performance. GA, the Department of Information Services (DIS) and the Office of Financial Management (OFM) should be commended for their collaboration implementing GA's *Master Service Agreements*. I am very pleased that this report lends its support and recognizes the need for continued collaboration to promote economies of scale.

We may have overlooked information system planning during the interviews for this performance audit. In *Finding One* it is stated, in parts, that

"KPMG recommends that agencies consider personal services contracting as a risk in their agency-wide risk assessments... particularly with major information systems work..."

This may lead one to believe that planning for information systems is lacking. Risk assessment and planning, short/long term, is completed on all "major information systems". The "Enterprise Approach" to information systems is alive and well in state government. DIS and OFM have provided agencies with the assessment tools and guidance necessary when planning our next evolution of information technology. DIS should be commended for their assistance provided agencies in this arena.

Also in *Finding One* we may have not addressed fully the advantages to decentralized contracting. In *Finding One* it is stated that

“Despite potentially being efficient, decentralized contracting operations appear to carry greater risk because of the important roles that persons with non-contracting expertise play in the process since the technical elements of a proposal are typically developed by someone within an agency that has specific knowledge of the service to be contracted, but potentially limited knowledge (if any at all) of the elements involved in contracting.”

This may lead one to believe that centralized contracting operations are the answer. Contrarily, the mix is key to contracting success. Without a prohibitive investment in centralized staff with specific knowledge in each field, monitoring contractor performance is impossible. It is important to note that agency staff who have “*specific knowledge of the service to be contracted*” add matchless value to the process and agencies are at a greater risk if they are not an integral part of contract operations. Except for a learning curve with staff turnover, Project Managers are more familiar with the elements involved in contracting for their specific services, than central operations; specifically, with “best practices” such as pre-qualified Master Service Agreements. For Example: Information technology Project Managers, with “*specific knowledge*” in information technology, made GA’s information technology Master Service Agreements what they are today. They were the creators and were involved in the development of specifications, evaluations, monitoring tools and the performance measurements. The **answer is not** centralizing operations. Moreover, the **answer is** to simplify contracting operations and eliminate duplication through collaboration to improve the mix.

I appreciate the opportunity to comment on the report and look forward to participating in a collaborative effort to implement those recommendations that promote efficiencies in government contracting, improved contractor performance and easier access to business communities.

If you have any questions, please call me at (360) 902-6964.

Sincerely,

Tom Goldsby
Contracts Office Manager

Appendix C: Yellow Book Matrix

Table 2
Yellow Book Matrix

Yellow Book Requirement	Action
Fieldwork Standards	
I. Planning	
› Significance and User Needs	See Project Plan dated October 9, 2002
› Understanding the Program	See Project Plan dated October 9, 2002
› Criteria	See Project Plan dated October 9, 2002
› Audit Follow Up	See Project Plan dated October 9, 2002 and Chapter 1 of this report
› Considering Others' Work	See Project Plan dated October 9, 2002 and Chapter 1 of this report
› Staff and Other Resources	See Project Plan dated October 9, 2002
› Written Audit Plan	See Project Plan dated October 9, 2002
II. Supervision	See Project Plan dated October 9, 2002
III. Compliance with Laws & Regulations	
› Illegal Acts and Other Non-Compliance	No instances observed
› Abuse	No instances observed
› Obtaining Information About Laws, Regulations, and Other Compliance Requirements	No instances observed
› Limitations of an Audit	See Chapter 1 of this report
IV. Management Controls	Management controls are discussed in Chapter Three of this report.
V. Evidence	
› Audit Findings	See Chapter 3 of this report
› Tests of Evidence	The KPMG project team discussed its tests of evidence in Chapters 1 and 3 of this report
› Working Papers	The KPMG project team constructed and maintained project workpapers for this engagement

**Table 2 (cont.)
Yellow Book Matrix**

Yellow Book Requirement	Action
Reporting Standards	
I. Form	
II. Timeliness	Draft report submitted on November 30, 2002
III. Report Contents	
› Objectives, Scope, & Methodology	The objectives, scope and methodology are stated in Chapter 1 of this report
› Audit Results	Significant findings and conclusions are addressed in Chapter 3 of this report
› Recommendations	Recommendations are in Chapter 3 of this report.
› Statement on Auditing Standards	The audit was conducted in accordance with generally accepted government auditing standards as stated in Chapter 1
› Compliance with Laws and Regulations	Related findings and conclusions are addressed in Chapter 3 of this report
› Management Controls	Related findings and conclusions are addressed in Chapter 3 of this report
› Views of Responsible Officials	KPMG shall report the views of responsible officials of the audited agency concerning KPMG's findings, conclusions, recommendations, and corrections planned by the respective official(s) upon finalization of the draft report
› Noteworthy Accomplishments	KPMG shall report noteworthy accomplishments of each agency that are within the scope of, and identified during, the audit upon finalization of the draft report
› Issues Needing Further Study	KPMG reported and referred significant issues needing further audit work to project sponsors in Chapter 4 of this report
› Privileged & Confidential Information	Not applicable
IV. Report Distribution	Draft report delivered to OFM and auditees on November 30, 2002